

**State of Delaware
Department of Transportation**

**Financial Statements and
Independent Auditors' Report**

June 30, 2005 and 2004

Table of Contents

| | Page |
|--|------|
| Management's Discussion and Analysis | 3 |
| Independent Auditors' Report..... | 11 |
| Financial Statements | |
| Balance Sheets..... | 13 |
| Statements of Revenues, Expenses, and Change in Fund Net Assets | 15 |
| Statements of Cash Flows | 17 |
| Notes to Financial Statements..... | 19 |
| Required Supplementary Information | |
| Supplementary Information for Governments That Use the Modified Approach for Infrastructure Assets | 45 |
| Additional Information | |
| Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 48 |
| Schedule of Revenue Bond Coverage..... | 50 |

**State of Delaware
Department of Transportation**

Management's Discussion and Analysis

This section of the Delaware Department of Transportation's (the Department) annual financial statements presents our discussion and analysis of the Department's financial performance during the fiscal year ended June 30, 2005.

Background

The mission of the Department is to provide a safe, efficient, and environmentally sensitive transportation network that offers a variety of convenient, cost-effective mobility opportunities for the movement of people and goods. The Department is responsible for the construction and maintenance of the State of Delaware's (the State) roadways, bridges, and public transportation systems, and for the coordination and development of the State's comprehensive, balanced transportation planning and policies.

Financial Highlights

- Total operating revenues surpassed \$349.4 million, a 2.2% increase over fiscal year 2004.
- Total operating expenses were \$534.3 million. The \$61.7 million increase is primarily due to increased maintenance, preservation, and repair expense, payroll expense, and professional fees.
- The Department took advantage of the low interest rates and went to the bond market in October 2004 by issuing \$100.2 million of new money bonds and refunding \$67.4 million.
- In May 2005, the Department issued a \$40 million General Obligation Bond Anticipation Note to PNC Bank to provide interim financing for the Department's capital program in anticipation of issuance of long-term bonds. The note is due and payable on October 3, 2005.
- A \$16.4 million investment was made to purchase revenue vehicles and facilities for Delaware Transit Corporation (DTC).
- Total capital assets (net of depreciation) were \$3,447.7 million at June 30, 2005, and net assets were \$2,686.3 million.

**State of Delaware
Department of Transportation**

Management's Discussion and Analysis (Continued)

Overview of the Financial Statements

The financial section of this annual report consists of four parts: 1) management's discussion and analysis (this section), 2) the basic financial statements, 3) notes to the financial statements, and 4) required supplementary information.

The financial statements provide both long-term and short-term information about the Department's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

The Department's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the statements of revenues, expenses, and change in fund net assets. All assets and liabilities associated with the operation of the Department are included in the balance sheets.

Financial Analysis of the Department

Balance Sheets

The Department's total assets increased \$39.5 million to \$3,716.5 million, and total liabilities increased \$86.5 million to \$1,030.2 million. Net assets at June 30, 2005 were \$2,686.3 million, a \$47 million decrease from June 30, 2004.

**State of Delaware
Department of Transportation**

Management's Discussion and Analysis (Continued)

Department of Transportation's Net Assets
(in millions of dollars)

| | <u>2005</u> | <u>2004</u> | <u>Change 2005-2004</u> |
|---|----------------------|----------------------|-----------------------------|
| Current assets | \$ 190.0 | \$ 198.8 | (8.8) |
| Capital assets | 3,447.6 | 3,376.7 | 70.9 |
| Other noncurrent assets | <u>78.9</u> | <u>101.5</u> | <u>(22.6)</u> |
| Total assets | <u>\$3,716.5</u> | <u>\$3,677.0</u> | <u>39.5</u> |
| Current liabilities | \$ 176.2 | \$ 132.5 | 43.7 |
| Noncurrent liabilities | <u>854.0</u> | <u>811.2</u> | <u>42.8</u> |
| Total liabilities | <u>\$1,030.2</u> | <u>\$ 943.7</u> | <u>86.5</u> |
| Net assets | | | |
| Invested in capital assets, net of debt | \$2,545.9 | \$2,561.2 | (15.3) |
| Unrestricted | <u>140.4</u> | <u>172.1</u> | <u>(31.7)</u> |
| Total net assets | <u>\$2,686.3</u> | <u>\$2,733.3</u> | <u>(47.0)</u> |

The decrease in current and noncurrent assets is primarily attributable to a decrease in investments used to purchase capital assets. The increase in liabilities is attributable to both the bond sale with an increase of bonds payable debt and the addition of the \$40 million note payable.

Change in Net Assets

The Department's net assets at June 30, 2005 were \$47 million lower than at June 30, 2004. The Department's total operating revenues increased \$7.6 million to \$349.4 million, and total operating expenses increased \$61.7 million to \$534.3 million.

**State of Delaware
Department of Transportation**

Management's Discussion and Analysis (Continued)

Change in the Department of Transportation's Net Assets
(in millions of dollars)

| | <u>2005</u> | <u>2004</u> | <u>Change 2005-2004</u> |
|--|------------------|------------------|-----------------------------|
| Operating revenues | \$ 349.4 | \$ 341.8 | 7.6 |
| Operating expenses | | | |
| Operating expenses | 514.6 | 453.1 | 61.5 |
| Depreciation | <u>19.7</u> | <u>19.5</u> | <u>0.2</u> |
| Total operating expenses | <u>534.3</u> | <u>472.6</u> | <u>61.7</u> |
| Operating loss | (184.9) | (130.8) | (54.1) |
| Nonoperating revenues, net | <u>61.6</u> | <u>66.1</u> | <u>(4.5)</u> |
| Change in net assets before contributions and after nonoperating revenues | (123.3) | (64.7) | (58.6) |
| Capital contributions | <u>76.3</u> | <u>37.7</u> | <u>38.6</u> |
| Change in net assets | (47.0) | (27.0) | (20.0) |
| Total net assets - beginning of year | <u>2,733.3</u> | <u>2,760.3</u> | <u>(27.0)</u> |
| Total net assets - end of year | <u>\$2,686.3</u> | <u>\$2,733.3</u> | <u>(47.0)</u> |

Motor vehicle and related revenue was the main contributor for the operating revenue increase. Motor vehicle document and registration fee revenues increased by 5.1% and 6.7%, respectively, for fiscal year 2005; and increased fees for record sales has had the largest impact on the operating revenue increase. The largest contributing factors for the increase in operating expenses for fiscal year 2005 is the 31% increase in payroll expenses due to the replacement of lost employees from the previous hiring freeze, the 21% increase in professional fees resulting from the increased land purchases during the fiscal year, and the 7% increase in maintenance, preservation, and repairs due to the aging of infrastructure. Increased prices for materials - steel, lumber, and concrete have also contributed to this increase.

**State of Delaware
Department of Transportation**

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2005, the Department had invested \$3,547 million in capital assets, including roads, bridges, buildings, land, and equipment. Net of accumulated depreciation, the Department's net capital assets at June 30, 2005 totaled \$3,447.6 million. This amount represents a net increase (including additions and net of disposals, and depreciation) of \$70.9 million over June 30, 2004.

The major contributing factor to the increase of the Department's capital assets is an investment by DTC of \$16.4 million in revenue vehicles and facilities, and the Department's purchase of land for future use in capital projects of \$51 million.

The Department is using the "Modified Approach" for determining condition assessments on its roads and bridges. The Modified Approach requires that the Department initially set a percentage benchmark for maintaining the infrastructure in good or better condition and report at least every three years on the condition assessments.

It is the Department's policy to maintain at least 75% of its highways and bridge systems at a good or better condition level as follows:

The condition of road pavement is measured using the Overall Pavement Condition (OPC) system, which is based on the extent and severity of various pavement distresses that are visually observed. The OPC system uses a measurement scale that is based on a condition index ranging from 0 for poor pavement to 5 for pavement in excellent condition.

The condition of bridges is measured using the "Bridge Condition Rating" (BCR), which is based on the Federal Highway Administration's (FHWA) Coding Guide, "Recording and Coding Guide for the Structure Inventory and Appraisal of the Nation's Bridges." The BCR uses a measurement scale that is based on a condition index ranging from 0 to 4 for substandard bridges to 9 for bridges in perfect condition. For reporting purposes, substandard bridges are classified as those with a rating of 4 or less. The good or better condition bridges are taken as those with ratings of 6 to 9, with 5 being assessed a fair rating.

**State of Delaware
Department of Transportation**

Management's Discussion and Analysis (Continued)

The Department will perform condition assessments of eligible infrastructure assets at least every three years. Currently, road condition assessments are conducted every year, and bridge condition assessments are conducted, for the most part, every two years.

Of the Department's 1,371 bridges that were rated in 2004, 1,029 or 75.1% received a good or better BCR rating (a 0.6% increase over 2003), 18.6% were rated fair, and 6.3% received a substandard rating. Of the 7,163,000 square feet of bridge deck that was rated, 94% or 6,731,463 square feet received an OPC condition rating of good or better (a 3.0% decrease from 2003), 5.6% received a fair rating, and 0.4% received a substandard deck rating.

In 2004, 4,464 center-line miles were rated; 73.8% received a good or better OPC rating (a 3.7% decrease from 2003), 17.4% received a fair rating, and 8.8% received a poor rating.

The 2005 estimate to maintain and preserve the Department's infrastructure was \$138.5 million, but the actual expenditure was \$311.4 million, which is \$172.9 million over the estimate. The variance is predominantly attributed to change orders necessary on jobs that are not estimated when the project is set up and budgeted and the aforementioned increased material costs.

Debt Administration

Transportation Systems Revenue Bonds are issued with the approval of the State and the State's Bond Issuing Officers (the Governor, the Secretary of Finance, the Secretary of State, and the State Treasurer) to finance improvements to the State's transportation systems. Approval by the General Assembly of the State is not required for the Delaware Transportation Authority (the Authority) to issue bonds to refund any of its bonds provided that a present value debt service savings is achieved in such refunding. The sales must comply with the rules and regulations of the United States Treasury Department and the United States Securities and Exchange Commission.

At June 30, 2005, the Authority had \$861.7 million in revenue bonds outstanding, a 5.7% increase over June 30, 2004. During the past year, \$100.2 million of new money bonds were issued and \$67.4 million of bonds were refunded. Of the ten outstanding bond issues, one has an AA rating from S&P and an A1 rating from Moody's. The remaining nine issues are rated AAA by S&P and Aaa by Moody's.

**State of Delaware
Department of Transportation**

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budget

Steadily rising interest rates will ultimately slow the economy's growth. If policymakers are able to raise rates in a measured way, then the economy's transition to slower growth will be a graceful one. Rate-sensitive parts of the economy, such as the vehicle and housing markets, will cool, but will not cave. Risks still abound for the housing market as long-term interest rates have only just begun to edge upward. So far the shift in rates has been moderate and orderly, which is consistent with consensus forecasts. But should they spike upward swiftly, there remains considerable risk for price corrections. Delaware's housing economy has helped fuel the Delaware economy significantly the last few years. Auto sales moderation will continue into next year as interest rates gradually push higher. The outlook will be determined by several factors: the strength of income and job growth, affordability (the interaction between prices, financing costs, and income), and the extent of spent-up demand. However, continued rises in input costs, particularly energy costs, do pose a serious downside risk for manufacturers, and cutbacks in other expenditures, such as labor, could be stepped up in order to absorb the higher costs. The principal near-term threats to this sanguine outlook, including mounting political uncertainty and higher energy prices, are significant.

The Department's fiscal year 2006 Operating Annual Budget adopted by the General Assembly in June 2005 totals \$293.9 million and the fiscal year 2006 Capital Improvement Act totals \$393.1 million in State authorized funds. The Capital Improvement Act authorizes funding of the following improvements: \$345 million of Road System, \$21.6 million of Grants and Allocations, \$.4 million of Transit System, and \$26.1 million for Support System. The Capital Improvement Act authorizes an additional \$91 million in federal funding and \$1 million from other sources. The spending of these capital authorizations will occur over several years. The capital spending forecast for fiscal year 2006 is \$501.1 million inclusive of \$266 and \$235.1 million in State and federal, respectively. The Grants-In-Aid Act amended the Operations Act by a transferring support of \$14 million from the General Fund to cover the Department's operations' cost in the maintenance and operations' budget unit.

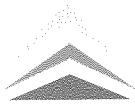
Additionally, in this year's authorizations, the Department will receive a \$72.9 million transfer from the Office of Management and Budget (OMB) to support the Department's operations.

**State of Delaware
Department of Transportation**

Management's Discussion and Analysis (Continued)

Contacting the Department's Financial Management

This financial report is designed to provide bondholders, patrons, and other interested parties with a general overview of the Department's finances and to demonstrate the Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Delaware Department of Transportation, Finance Unit, P.O. Box 778, Dover, DE 19903.



Independent Auditors' Report

State of Delaware
Department of Transportation
Dover, Delaware

We have audited the accompanying financial statements of the business-type activities of the State of Delaware, Department of Transportation as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the State of Delaware, Department of Transportation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note A, the financial statements of the State of Delaware, Department of Transportation are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities that is attributable to the transactions of the State of Delaware, Department of Transportation. They do not purport to, and do not, present fairly the financial position of the State of Delaware as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the State of Delaware, Department of Transportation as of June 30, 2005 and 2004, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

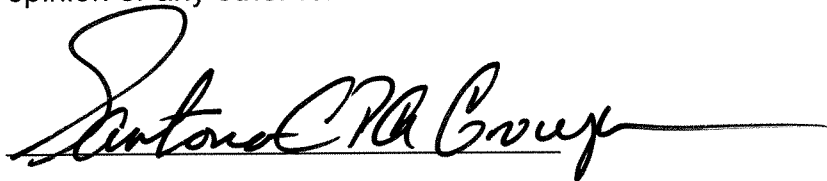
State of Delaware
Department of Transportation

As discussed in Note U to the financial statements, certain errors resulting in the understatement of previously reported cash as of June 30, 2004, were discovered during the current year. Accordingly, the June 30, 2004 financial statements have been restated.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2005, on our consideration of the State of Delaware, Department of Transportation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Management's discussion and analysis and supplementary information for governments that use the modified approach for infrastructure assets on pages 3 to 10 and 45 to 46 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the State of Delaware, Department of Transportation. The additional information presented in the Schedule of Revenue Bond Coverage on page 50 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion or any other form of assurance on the additional information.

A handwritten signature in black ink, appearing to read "PricewaterhouseCoopers", with a long horizontal line extending to the right.

August 18, 2005
Newark, Delaware

**State of Delaware
Department of Transportation**

Balance Sheets

June 30, 2005 and 2004

| | <u>2005</u> | Restated <u>2004</u> |
|--|--------------------------------|--------------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | | |
| Unrestricted | \$ 22,990,869 | \$ 21,433,813 |
| Restricted | 2,020,731 | 1,583,013 |
| Investments - at fair value | 142,849,132 | 155,127,546 |
| Accrued interest receivable | 800,000 | 921,037 |
| Accounts receivable | | |
| Trade | 6,762,949 | 4,187,703 |
| Federal grant | 1,853,240 | 5,008,697 |
| Inventory | 12,656,652 | 10,457,312 |
| Prepaid expenses | <u>77,051</u> | <u>71,905</u> |
| Total current assets | 190,010,624 | 198,791,026 |
| NONCURRENT ASSETS | | |
| Capital assets, not depreciable | | |
| Land | 169,363,046 | 113,672,853 |
| Infrastructure | 3,163,691,547 | 3,148,481,189 |
| Capital assets, depreciable | | |
| Buildings and improvements | 61,212,935 | 53,415,443 |
| Fixtures and equipment | <u>152,714,282</u> | <u>149,830,416</u> |
| | 3,546,981,810 | 3,465,399,901 |
| Less: accumulated depreciation | <u>99,326,637</u> | <u>88,722,846</u> |
| Capital assets | 3,447,655,173 | 3,376,677,055 |
| Investments - at fair value | 49,247,422 | 73,159,607 |
| Accrued interest receivable | 591,895 | 1,259,706 |
| Loan receivable - Diamond State Port Corporation | <u>28,984,952</u> | <u>27,073,580</u> |
| Total noncurrent assets | <u>3,526,479,442</u> | <u>3,478,169,948</u> |
| TOTAL ASSETS | <u><u>\$ 3,716,490,066</u></u> | <u><u>\$ 3,676,960,974</u></u> |

See notes to financial statements.

**State of Delaware
Department of Transportation**

Balance Sheets

June 30, 2005 and 2004

| | <u>2005</u> | Restated <u>2004</u> |
|--|--------------------------------|--------------------------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 41,013,047 | \$ 42,863,766 |
| Accrued payroll | 6,786,864 | 4,808,355 |
| Compensated absences payable | 4,184,961 | 3,481,183 |
| Due to Department of Public Safety | - | 338,642 |
| Escrow deposit | 2,005,946 | 1,569,425 |
| Claims and judgments | 2,302,132 | 2,224,473 |
| Unearned revenue | 366,419 | 3,031,991 |
| Note payable | 40,000,000 | - |
| Bonds payable | 58,445,000 | 53,920,000 |
| Interest payable | <u>21,070,299</u> | <u>20,238,072</u> |
| Total current liabilities | 176,174,668 | 132,475,907 |
| NONCURRENT LIABILITIES | | |
| Compensated absences - net of current portion | 8,109,047 | 7,610,117 |
| Claims and judgments - net of current portion | 12,525,071 | 12,590,280 |
| Bonds payable - net of current portion | 803,265,000 | 761,585,000 |
| Bond issue premium - net of accumulated amortization | <u>30,114,104</u> | <u>29,382,368</u> |
| Total noncurrent liabilities | <u>854,013,222</u> | <u>811,167,765</u> |
| Total liabilities | 1,030,187,890 | 943,643,672 |
| NET ASSETS | | |
| Invested in capital assets - net of related debt | 2,545,945,173 | 2,561,172,055 |
| Restricted | 14,785 | 13,588 |
| Unrestricted | <u>140,342,218</u> | <u>172,131,659</u> |
| Total net assets | <u>2,686,302,176</u> | <u>2,733,317,302</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 3,716,490,066</u></u> | <u><u>\$ 3,676,960,974</u></u> |

**State of Delaware
Department of Transportation**

**Statements of Revenues, Expenses, and
Change in Fund Net Assets**

For the Years Ended June 30, 2005 and 2004

| | <u>2005</u> | <u>2004</u> |
|--|--------------------|--------------------|
| OPERATING REVENUES | | |
| Pledged revenue | | |
| Turnpike revenues | \$ 60,703,200 | \$ 62,861,026 |
| Motor vehicle and related revenue | <u>234,097,331</u> | <u>222,887,836</u> |
| Total pledged revenue | 294,800,531 | 285,748,862 |
| Toll revenue - Delaware SR-1 | 30,161,375 | 27,100,947 |
| Federal highway reimbursements | - | 1,570,112 |
| Passenger fares | 9,323,392 | 8,938,031 |
| Reimbursements | 7,403,978 | 4,446,730 |
| E-ZPass expense reimbursement | 2,665,572 | 4,246,306 |
| Miscellaneous revenue | <u>5,042,014</u> | <u>9,720,582</u> |
| Total operating revenues | 349,396,862 | 341,771,570 |
| OPERATING EXPENSES | | |
| Bad debt expense | 110,268 | 3,397,279 |
| Claims and judgments | 241,297 | 170,095 |
| Depreciation | 19,653,950 | 19,540,263 |
| Financing expense | 833,029 | 2,760 |
| Maintenance, preservation, and repairs | 190,318,886 | 177,418,358 |
| Occupancy expenses | 14,630,322 | 8,416,024 |
| Office expense | 8,301,607 | 22,317,060 |
| Payroll expense | 112,227,556 | 82,494,194 |
| Professional fees | 119,335,674 | 98,689,454 |
| State General Fund debt service | 546,089 | 621,553 |
| Supplies | 22,643,662 | 18,699,455 |
| Vehicle operations | <u>45,473,121</u> | <u>40,847,712</u> |
| Total operating expenses | <u>534,315,461</u> | <u>472,614,207</u> |

Continued...

**State of Delaware
Department of Transportation**

**Statements of Revenues, Expenses, and
Change in Fund Net Assets (Continued)**

For the Years Ended June 30, 2005 and 2004

| | <u>2005</u> | <u>2004</u> |
|--|--------------------------------|--------------------------------|
| OPERATING LOSS | \$ (184,918,599) | \$ (130,842,637) |
| NONOPERATING REVENUES (EXPENSES) | | |
| Pledged revenue - income from investments (net of fees) | 6,019,636 | 5,981,028 |
| Income from investments (net of fees) | 231,203 | 28,608 |
| Net increase (decrease) in the fair value of investments | 156,843 | (2,099,056) |
| Accrued interest from bond sales | 401,223 | - |
| Federal grant revenue | 106,332,365 | 94,100,481 |
| Grant expenses | (408,309) | (1,419,789) |
| State operating subsidies | 7,498,670 | 4,489,314 |
| Transfers of land to DNREC | (2,348,913) | - |
| Transfers of land to Department of Agriculture | (19,324,584) | - |
| Gain (loss) on asset disposal | 561,002 | (654,036) |
| Interest expense | <u>(37,558,193)</u> | <u>(34,357,809)</u> |
| Excess of nonoperating revenues over expenses | <u>61,560,943</u> | <u>66,068,741</u> |
| LOSS BEFORE CONTRIBUTIONS | (123,357,656) | (64,773,896) |
| STATE CAPITAL CONTRIBUTIONS | <u>76,342,530</u> | <u>37,760,310</u> |
| CHANGE IN FUND NET ASSETS | (47,015,126) | (27,013,586) |
| TOTAL FUND NET ASSETS - BEGINNING OF YEAR | <u>2,733,317,302</u> | <u>2,760,330,888</u> |
| TOTAL FUND NET ASSETS - END OF YEAR | <u><u>\$ 2,686,302,176</u></u> | <u><u>\$ 2,733,317,302</u></u> |

See notes to financial statements.

**State of Delaware
Department of Transportation**

Statements of Cash Flows

For the Years Ended June 30, 2005 and 2004

| | <u>2005</u> | <u>Restated 2004</u> |
|--|---------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Operating receipts | \$ 342,685,924 | \$ 335,999,283 |
| Payments to suppliers and employees | (512,375,157) | (468,039,410) |
| Insurance claims paid | (2,711,371) | (3,217,158) |
| Other receipts | <u>1,470,120</u> | <u>2,707,549</u> |
| Net cash used in operating activities | (170,930,484) | (132,549,736) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Proceeds from State General Fund | 59,916,819 | 30,008,825 |
| Operating subsidies | <u>7,498,670</u> | <u>4,489,314</u> |
| Net cash provided by noncapital financing activities | 67,415,489 | 34,498,139 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Payments of bond principal | (53,920,000) | (47,640,000) |
| Payment to escrow agent for refunding of bonds | (67,425,000) | - |
| Proceeds from bond sale | 167,550,000 | - |
| Repayment from Diamond State Port Corporation | - | 426,420 |
| Proceeds from issuance of note | 40,000,000 | - |
| Premium from bond sale | 9,223,338 | - |
| Proceeds from capital grants | 125,166,582 | 100,197,386 |
| Acquisition of capital assets | (114,896,272) | (37,963,305) |
| Proceeds from sale of equipment | 3,151,668 | 840,451 |
| Payments of interest | <u>(44,816,304)</u> | <u>(38,299,588)</u> |
| Net cash provided by (used in) capital and related financing activities | 64,034,012 | (22,438,636) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of investments | 41,192,327 | 133,155,210 |
| Purchase of investments | (4,844,885) | (7,460,120) |
| Interest received | <u>5,128,315</u> | <u>5,029,384</u> |
| Net cash provided by investing activities | <u>41,475,757</u> | <u>130,724,474</u> |
| Net increase in cash and cash equivalents | 1,994,774 | 10,234,241 |

Continued...

**State of Delaware
Department of Transportation**

Statements of Cash Flows (Continued)

For the Years Ended June 30, 2005 and 2004

| | 2005 | Restated 2004 |
|---|-------------------------|-------------------------|
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | \$ 23,016,826 | \$ 12,782,585 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 25,011,600</u> | <u>\$ 23,016,826</u> |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES | | |
| Net operating loss | \$ (184,918,599) | \$ (130,842,637) |
| Adjustments to reconcile net operating loss to net cash used in operating activities | | |
| Depreciation | 19,653,950 | 19,540,263 |
| Changes in assets and liabilities | | |
| Increase in accounts receivable | (2,575,246) | (55,257) |
| Increase in inventory | (2,199,340) | (2,572,956) |
| Increase in prepaid expenses | (5,146) | (71,905) |
| Decrease in accounts payable | (1,850,719) | (14,789,268) |
| Increase in accrued payroll and related expenses | 3,181,217 | 526,752 |
| Decrease in deferred revenue | (2,665,572) | (3,009,481) |
| Increase (decrease) in other accrued expenses | <u>448,971</u> | <u>(1,275,247)</u> |
| Net cash used in operating activities | <u>\$ (170,930,484)</u> | <u>\$ (132,549,736)</u> |
| SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Interest capitalized on Diamond State Port Corporation loan | <u>\$ 1,911,372</u> | <u>\$ -</u> |
| Transfers of land to other State agencies | <u>\$ 21,673,497</u> | <u>\$ -</u> |

See notes to financial statements.

State of Delaware
Department of Transportation
Notes to Financial Statements

Note A - Organization

The Delaware Department of Transportation (the Department) is an agency of the State of Delaware (the State). The Department has the overall responsibility for coordinating and developing comprehensive, balanced transportation planning and policies for the State. To assist the Department in their mission, the State and the Department created the Delaware Transportation Authority (the Authority), which includes the Transportation Trust Fund (the Trust Fund) and the Delaware Transit Corporation (DTC).

The Authority has the power to issue bonds, with the approval of the State, to finance improvements to the State's transportation system, and may pledge any or all of its revenues to secure financing.

The Trust Fund currently operates under the Transportation Trust Fund Agreement, dated August 1, 1988, as supplemented, and the Motor Fuel Tax Revenue Bond Trust Agreement, dated September 1, 1981 (the Trust Fund Agreement). The Trust Fund is the recipient of operating revenues of the Department. The primary funding of the Trust Fund comes from motor fuel taxes, motor vehicle document fees, motor vehicle registration fees, and other transportation related fees that are imposed and collected by the State and transferred to the Trust Fund. The State has irrevocably pledged, assigned, and continuously appropriated to the Trust Fund these taxes and fees. The other major sources of revenue for the Trust Fund are the Delaware Turnpike and the Delaware SR-1 Toll Roads, both of which are owned and operated by the Trust Fund.

DTC was created in fiscal year 1995 as a subsidiary public corporation of the Authority. DTC is authorized to operate the public transportation system within the State.

Note B - Summary of Significant Accounting Policies

1. Basis of Accounting

The Department maintains its accounts on a basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**State of Delaware
Department of Transportation**

Notes to Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

1. Basis of Accounting (Continued)

The Department operates as an enterprise fund. The Department's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

2. Basis of Presentation

The Department has presented the financial statements in compliance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB Statement No. 34 establishes financial reporting standards for all state and local governments.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits, short-term money market securities, and other deposits held by financial institutions, generally with original maturities of three months or less.

Included in unrestricted cash at June 30, 2005 and 2004 is \$3,501,974 and \$3,730,821, respectively, of reserves for insurance loss deductibles. The insurance loss deductibles are associated with workers' compensation and automobile insurance policies for various years (see Note Q).

The Department maintains cash accounts for administrative uses and has classified these cash balances as restricted.

4. Allowance for Doubtful Accounts

Accounts receivable are expected to be fully collectible at June 30, 2005 and 2004, and accordingly, a provision for uncollectible accounts has not been established.

**State of Delaware
Department of Transportation**

Notes to Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

5. Inventory

Inventory is accounted for at the lower of cost or market. Cost is determined using the weighted average method.

6. Investments

Investments are recorded in their respective funds at their fair value. Investments at June 30, 2005 and 2004 consisted of United States Government Obligations and Commercial Paper.

7. Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

8. Financial Accounting Standards Board (FASB) Pronouncements

The Department has elected not to apply FASB pronouncements issued after November 30, 1989.

9. Capital Assets

Capital assets, which include buildings, improvements, fixtures, equipment, and infrastructure assets (such as roads and bridges, which are normally immovable and of value only to the State) are reported in the enterprise fund financial statements.

Capital assets are defined by the State as assets with an initial individual cost of more than \$25,000 at the date of acquisition and an estimated useful life in excess of one year. It is the policy of the Department to capitalize all buildings, land, and land improvements, regardless of cost, and to capitalize infrastructure when the cost of individual items or projects exceeds \$1,000,000. Such assets are recorded at historical cost

**State of Delaware
Department of Transportation**

Notes to Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

9. Capital Assets (Continued)

or estimated historical cost if purchased or constructed. Buildings, improvements, fixtures, and equipment are depreciated on a straight-line basis.

Capital assets are defined by DTC as all assets purchased with State and federal grant money as well as any asset with a cost greater than \$5,000 purchased with operating money.

The costs of normal preservation, maintenance, and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

The "modified approach" to account for roads and bridges has been elected, as provided by GASB No. 34. Under this process, the Department does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the Department to: 1) commit to maintaining and preserving affected assets at or above a condition level established by the Department, 2) maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained, and 3) make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels.

The Department maintains two asset management systems, one for the roads and one for the bridges. In addition, the Department completes condition assessments on its roads every year and on its bridges at least every two years.

Buildings, improvements, fixtures, and equipment are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|----------------------------|--------------|
| Buildings and improvements | 10 - 40 |
| Fixtures and equipment | 3 - 12 |

**State of Delaware
Department of Transportation**

Notes to Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

10. Compensated Absences

Compensated absences are absences for which Department employees will be paid, such as vacation and sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the Department and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the Department and its employees are accounted for in the period in which such services are rendered or such events take place.

11. Bond Issue Premiums/Discounts

Amortization of bond issue premiums/discounts is provided using the effective interest method over the life of the bond issue. Amortization taken in 2005 and 2004 was \$7,418,587 and \$6,241,846, respectively.

12. Revenues and Expenses

The Department defines nonoperating revenues as federal and state grant revenue, operating subsidies, and investment income. All other revenues are derived from normal operations of the Department. Nonoperating expenses are defined as grant expenses and interest expense. All other expenses are a result of normal operations.

Note C - Cash and Investments

Cash Management Policy and Investment Guidelines

The policy for the investment of Department funds is the responsibility of the Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for, and the terms, conditions, and other matters relating to, the investment of all money belonging to the Department. Under the Board's *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* (the Policy), all deposits and investments of the Department are categorized as "Authority Accounts." Investments of the Department are further restricted to "Qualified Investments" as defined in the Trust Fund Agreement.

**State of Delaware
Department of Transportation**

Notes to Financial Statements (Continued)

Note C - Cash and Investments (Continued)

Cash Management Policy and Investment Guidelines (Continued)

As defined by the Policy, the investment objectives of Authority Accounts include maximizing yield and maintaining the safety of principal. At June 30, 2005 and 2004, investments of the Department are primarily in U.S. Government securities, U.S. Government agency securities, and Commercial Paper rated in the highest rating category by either Moody's or Standard & Poor's. All of these meet the objectives defined by the Policy and are Qualified Investments in accordance with the Trust Fund Agreement.

The Policy is available on the Internet at www.state.de.us/treasure.

Custodial Credit Risk

1. Deposits

The carrying amounts of the Department's deposits at June 30, 2005 and 2004 were \$25,011,600 and \$23,016,826, respectively, and the bank balances were \$34,657,716 and \$24,067,502, respectively. The differences between bank balances and carrying amounts resulted from outstanding checks and deposits in transit. Of the bank balances, \$19,175,606 and \$12,537,679, respectively, were covered by federal depository insurance and by collateral held by the Department's agent, in the Department's name, at June 30, 2005 and 2004. The remaining bank balances of \$15,482,110 and \$11,529,823, respectively, were neither insured nor collateralized at June 30, 2005 and 2004.

As of June 30 2005 and 2004, the Department had cash and cash equivalents of \$4,577,067 and \$8,369,194, respectively, held by the State of Delaware Treasurer's Office in Dover, Delaware. The Treasurer's Office controls these funds and any investment decisions are made by the State Treasurer's Office. The deposits held by the State investment pool and internal investment pool are specifically identified for the Department, but the credit risk cannot be categorized for these deposits. Credit risk for such deposits depends on the investment decisions made by the State Treasurer's Office.

**State of Delaware
Department of Transportation**

Notes to Financial Statements (Continued)

Note C - Cash and Investments (Continued)

Custodial Credit Risk (Continued)

2. Investments

Investments of the Department are stated at fair value, which approximates cost. At June 30, 2005 and 2004, all of the Department's investments were insured or registered, with securities held by the Department or its agent in the Department's name.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the value of an investment. The Policy provides that maximum maturity for investments in Authority Accounts, at the time of purchase, shall not exceed ten years, except when it is prudent to match a specific investment instrument with a known specific future liability, in which case the maturity limitation shall match the maturity of the corresponding liability.

The following tables present a listing of directly held investments and related maturities.

| <u>June 30, 2005</u> | | <u>Investment Maturities (in years)</u> | | |
|-----------------------------------|----------------------|---|---------------------|-------------------|
| <u>Investment Type</u> | <u>Fair Value</u> | <u>Less than 1</u> | <u>1 - 5</u> | <u>6 - 10</u> |
| U.S. Government Securities | \$ 5,902,563 | \$ 355,345 | \$ 5,547,218 | \$ - |
| U.S. Government Agency Securities | 137,059,208 | 93,359,004 | 42,739,960 | 960,244 |
| Commercial Paper | <u>49,134,783</u> | <u>49,134,783</u> | <u>-</u> | <u>-</u> |
| | <u>\$192,096,554</u> | <u>\$142,849,132</u> | <u>\$48,287,178</u> | <u>\$ 960,244</u> |

| <u>June 30, 2004</u> | | <u>Investment Maturities (in years)</u> | | |
|-----------------------------------|----------------------|---|---------------------|--------------------|
| <u>Investment Type</u> | <u>Fair Value</u> | <u>Less than 1</u> | <u>1 - 5</u> | <u>6 - 10</u> |
| U.S. Government Securities | \$ 16,726,145 | \$ 11,755,758 | \$ 4,970,387 | \$ - |
| U.S. Government Agency Securities | 151,013,863 | 82,824,643 | 66,706,359 | 1,482,861 |
| Commercial Paper | <u>60,547,145</u> | <u>60,547,145</u> | <u>-</u> | <u>-</u> |
| | <u>\$228,287,153</u> | <u>\$155,127,546</u> | <u>\$71,676,746</u> | <u>\$1,482,861</u> |

**State of Delaware
Department of Transportation**

Notes to Financial Statements (Continued)

Note C - Cash and Investments (Continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Department follows the Policy and the Trust Fund Agreement by investing only in authorized securities. The Department's general investment policy for credit risk is to apply the prudent-person rule. Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments.

In addition, the Trust Fund Agreement limits investments in Commercial Paper to those with a Moody's rating of P-1 or a Standard & Poor's rating of A-1 for short-term investments. The Department had investments in Commercial Paper of \$49,134,783 and \$60,547,145 at June 30, 2005 and 2004, respectively. All Commercial Paper held was short-term and rated in accordance with the Trust Agreement. All remaining investments were in U.S. Government Securities and U.S. Government Agency Securities, which carry no credit risk.

Investments in derivatives are prohibited by the Policy.

Investments in Excess of 5%

The following issuers have investments at fair value in excess of 5% of the investment portfolio at June 30, 2005:

| | | |
|--|--------------|-----|
| Federal Home Loan Mortgage Corporation | \$63,689,360 | 33% |
| Federal National Mortgage Association | 73,369,846 | 38% |
| General Electric Capital Corporation | 20,558,000 | 11% |
| Societe Generale NA | 14,979,688 | 8% |

Investment Commitments

The Department has made no investment commitments as of June 30, 2005.

**State of Delaware
Department of Transportation**

Notes to Financial Statements (Continued)

Note D - Accounts and Loan Receivable

Accounts and loans receivable at June 30, 2005 and 2004 are detailed as follows:

| | <u>2005</u> | <u>2004</u> |
|--|---------------------|---------------------|
| Receivables: | | |
| Interest | \$ 1,391,895 | \$ 2,180,743 |
| Trade | 6,762,949 | 4,187,703 |
| Federal Grant | 1,853,240 | 5,008,697 |
| Loans | <u>28,984,952</u> | <u>27,073,580</u> |
| Total receivables | 38,993,036 | 38,450,723 |
| Allowance for doubtful accounts | <u>-</u> | <u>-</u> |
| Total receivables - net of allowance | <u>\$38,993,036</u> | <u>\$38,450,723</u> |
| Amounts not scheduled for collection during the subsequent year | <u>\$29,576,847</u> | <u>\$28,333,286</u> |

The Trust Fund loaned \$27,500,000 to Diamond State Port Corporation in 2002. The funds were loaned at an interest rate of 4.6%. Originally, the loan was to be repaid in 40 semi-annual payments of \$1,058,920 with the final payment to be made in January 2023. Effective July 1, 2004, the loan was restructured. Unpaid interest through January 1, 2005, in the amount of \$1,911,372 was capitalized into the loan balance, and the first payment was deferred until July 1, 2005. The loan is to be repaid in 40 semi-annual payments of \$1,116,100, commencing on July 1, 2005, with the final payment to be made on January 1, 2025. The interest rate on the restructured loan remains at 4.6%. At June 30, 2005 and 2004, the balance was \$28,984,952 and \$27,073,580, respectively (see Note V).

**State of Delaware
Department of Transportation**

Notes to Financial Statements (Continued)

Note E - Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Adjustments and Reclassifications</u> | <u>Ending Balance</u> |
|---|------------------------------|---------------------|-----------------------|--|---------------------------|
| Capital assets not being depreciated | | | | | |
| Land | \$ 113,672,853 | \$79,338,690 | \$(23,648,497) | \$ - | \$ 169,363,046 |
| Infrastructure | <u>3,148,481,189</u> | <u>15,210,358</u> | <u>-</u> | <u>-</u> | <u>3,163,691,547</u> |
| Total capital assets not being depreciated | 3,262,154,042 | 94,549,048 | (23,648,497) | - | 3,333,054,593 |
| Capital assets being depreciated | | | | | |
| Buildings and improvements | 53,415,443 | 9,664,384 | (1,866,892) | - | 61,212,935 |
| Fixtures and equipment | <u>149,830,416</u> | <u>12,549,732</u> | <u>(9,665,866)</u> | <u>-</u> | <u>152,714,282</u> |
| Total capital assets being depreciated | 203,245,859 | 22,214,116 | (11,532,758) | - | 213,927,217 |
| Less: accumulated depreciation for | | | | | |
| Buildings and improvements | 18,863,749 | 1,597,583 | - | - | 20,461,332 |
| Fixtures and equipment | <u>69,859,097</u> | <u>17,998,336</u> | <u>(8,992,128)</u> | <u>-</u> | <u>78,865,305</u> |
| Total accumulated depreciation | <u>88,722,846</u> | <u>19,595,919</u> | <u>(8,992,128)</u> | <u>-</u> | <u>99,326,637</u> |
| Total capital assets being depreciated, net | <u>114,523,013</u> | <u>2,618,197</u> | <u>(2,540,630)</u> | <u>-</u> | <u>114,600,580</u> |
| Capital assets, net | <u>\$3,376,677,055</u> | <u>\$97,167,245</u> | <u>\$(26,189,127)</u> | <u>\$ -</u> | <u>\$3,447,655,173</u> |

Capital asset activity for the year ended June 30, 2004 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Adjustments and Reclassifications</u> | <u>Ending Balance</u> |
|---|------------------------------|---------------------|----------------------|--|---------------------------|
| Capital assets not being depreciated | | | | | |
| Land | \$ 111,562,334 | \$ 2,110,519 | \$ - | \$ - | \$ 113,672,853 |
| Infrastructure | <u>3,126,478,454</u> | <u>22,002,735</u> | <u>-</u> | <u>-</u> | <u>3,148,481,189</u> |
| Total capital assets not being depreciated | 3,238,040,788 | 24,113,254 | - | - | 3,262,154,042 |
| Capital assets being depreciated | | | | | |
| Buildings and improvements | 51,971,258 | 4,798,384 | (3,354,199) | - | 53,415,443 |
| Fixtures and equipment | <u>152,567,144</u> | <u>14,789,639</u> | <u>(17,136,202)</u> | <u>(390,165)</u> | <u>149,830,416</u> |
| Total capital assets being depreciated | 204,538,402 | 19,588,023 | (20,490,401) | (390,165) | 203,245,859 |
| Less: accumulated depreciation for | | | | | |
| Buildings and improvements | 18,948,959 | 1,558,513 | (1,643,723) | - | 18,863,749 |
| Fixtures and equipment | <u>63,881,731</u> | <u>20,810,604</u> | <u>(14,443,073)</u> | <u>(390,165)</u> | <u>69,859,097</u> |
| Total accumulated depreciation | <u>82,830,690</u> | <u>22,369,117</u> | <u>(16,086,796)</u> | <u>(390,165)</u> | <u>88,722,846</u> |
| Total capital assets being depreciated, net | <u>121,707,712</u> | <u>(2,781,094)</u> | <u>(4,403,605)</u> | <u>-</u> | <u>114,523,013</u> |
| Capital assets, net | <u>\$3,359,748,500</u> | <u>\$21,332,160</u> | <u>\$(4,403,605)</u> | <u>\$ -</u> | <u>\$3,376,677,055</u> |

**State of Delaware
Department of Transportation**

Notes to Financial Statements (Continued)

Note E - Capital Assets (Continued)

Depreciation expense for fiscal years 2005 and 2004 was \$19,653,950 and \$19,540,263, respectively.

Note F - Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2005 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--|------------------------------|----------------------|------------------------|---------------------------|--------------------------------|
| Bonds payable | | | | | |
| Revenue bonds | \$815,505,000 | \$167,550,000 | \$(121,345,000) | \$861,710,000 | \$58,445,000 |
| Bond Issue Premium, net of accumulated amortization | 29,382,368 | 9,223,338 | (8,491,602) | 30,114,104 | - |
| Claims and judgments | 14,814,753 | 3,728,035 | (3,715,585) | 14,827,203 | 2,302,132 |
| Compensated absences | <u>11,091,300</u> | <u>1,202,708</u> | <u>-</u> | <u>12,294,008</u> | <u>4,184,961</u> |
| Long-term liabilities | <u>\$870,793,421</u> | <u>\$181,704,081</u> | <u>\$(133,552,187)</u> | <u>\$918,945,315</u> | <u>\$64,932,093</u> |

Long-term liability activity for the year ended June 30, 2004 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--|------------------------------|--------------------|-----------------------|---------------------------|--------------------------------|
| Bonds payable | | | | | |
| Revenue bonds | \$863,145,000 | \$ - | \$(47,640,000) | \$815,505,000 | \$53,920,000 |
| Bond Issue Premium, net of accumulated amortization | 35,624,214 | - | (6,241,846) | 29,382,368 | - |
| Claims and judgments | 16,598,079 | 3,096,700 | (4,880,026) | 14,814,753 | 2,224,473 |
| Compensated absences | <u>11,603,697</u> | <u>-</u> | <u>(512,397)</u> | <u>11,091,300</u> | <u>3,481,183</u> |
| Long-term liabilities | <u>\$926,970,990</u> | <u>\$3,096,700</u> | <u>\$(59,274,269)</u> | <u>\$870,793,421</u> | <u>\$59,625,656</u> |

The Authority is responsible for liquidating all long-term liabilities.

**State of Delaware
Department of Transportation**

Notes to Financial Statements (Continued)

Note G - Bonds Outstanding

Bonds outstanding at June 30, 2005 and 2004 are detailed as follows:

| Date of Issue/Maturity | Amount of Original Issue | Description and Interest Rates | Balance Outstanding | |
|---------------------------|-----------------------------|---|----------------------|----------------------|
| | | | June 30, 2005 | June 30, 2004 |
| SENIOR BONDS | | | | |
| 1993/2010 | \$ 69,410,000 | Transportation System Senior Revenue Bonds, 1993 Series, 5.10% | \$ - | \$ 12,745,000 |
| 1994/2014 | 70,000,000 | Transportation System Senior Revenue Bonds, 1994 Series, 6.50% | - | 3,205,000 |
| 1997/2017 | 120,640,000 | Transportation System Senior Revenue Bonds, 1997 Series, 5.00-6.00% | 60,090,000 | 97,490,000 |
| 1998/2016 | 60,560,000 | Transportation System Senior Revenue Bonds, 1998 Series, 4.15-5.50% | 52,385,000 | 59,170,000 |
| 2000/2020 | 83,995,000 | Transportation System Senior Revenue Bonds, 2000 Series, 5.50% | 20,770,000 | 27,790,000 |
| 2001/2021 | 85,000,000 | Transportation System Senior Revenue Bonds, 2001 Series, 4.50-5.00% | 53,815,000 | 60,935,000 |
| 2002/2008 | 43,015,000 | Transportation System Senior Revenue Bonds, 2002 Series, 4.00-5.00% | 39,905,000 | 43,015,000 |
| 2002/2022 | 173,680,000 | Transportation System Senior Revenue Bonds, 2002 Series B, 4.00-5.25% | 153,100,000 | 165,000,000 |
| 2003/2023 | 277,210,000 | Transportation System Senior Revenue Bonds, 2003 Series, 3.00-5.00% | 256,575,000 | 277,210,000 |
| 2004/2024 | 167,550,000 | Transportation System Senior Revenue Bonds, 2003 Series, 3.00-5.00% | 167,550,000 | - |
| JUNIOR BONDS | | | | |
| 1993/2005 | \$ 33,605,000 | Transportation System Junior Revenue Bonds, 1993 Series, 5.00% | 10,260,000 | 20,020,000 |
| 1997/2004 | 19,385,000 | Transportation System Junior Revenue Bonds, 1997 Series, 4.50% | - | 805,000 |
| 2002/2009 | 48,120,000 | Transportation System Junior Revenue Bonds, 2002 Series, 4.375-5.00% | <u>47,260,000</u> | <u>48,120,000</u> |
| | | Totals | 861,710,000 | 815,505,000 |
| | | Less: current portion | <u>58,445,000</u> | <u>53,920,000</u> |
| | | Long-term portion | <u>\$803,265,000</u> | <u>\$761,585,000</u> |

**State of Delaware
Department of Transportation**

Notes to Financial Statements (Continued)

Note G - Bonds Outstanding (Continued)

The Transportation System Revenue Bonds are limited obligations of the Authority secured only by the pledged revenues of the Trust Fund. The pledged revenues of the Trust Fund were as follows at June 30,:

| | <u>2005</u> | <u>2004</u> |
|----------------------------|----------------------|----------------------|
| Pledged operating revenues | \$294,800,531 | \$285,748,862 |
| Investment income | <u>6,019,636</u> | <u>5,981,028</u> |
| | <u>\$300,820,167</u> | <u>\$291,729,890</u> |

The Authority had a total of \$95,219,525 and \$195,470,550 in authorized but unissued bonds at June 30, 2005 and 2004, respectively, to fund a portion of the Department of Transportation Capital Improvement Program.

The annual requirement to amortize all bonds payable as of June 30, 2005 was as follows:

| <u>Year Ending June 30,</u> | <u>Principal Maturity</u> | <u>Interest Maturity</u> | <u>Total</u> |
|---------------------------------|-------------------------------|------------------------------|------------------------|
| 2006 | \$ 58,445,000 | \$ 40,573,074 | \$ 99,018,074 |
| 2007 | 60,370,000 | 37,590,889 | 97,960,889 |
| 2008 | 63,980,000 | 34,477,817 | 98,457,817 |
| 2009 | 67,320,000 | 31,178,829 | 98,498,829 |
| 2010 | 64,595,000 | 27,881,848 | 92,476,848 |
| 2011-2015 | 239,995,000 | 100,578,768 | 340,573,768 |
| 2016-2020 | 192,540,000 | 47,318,706 | 239,858,706 |
| 2021-2025 | <u>114,465,000</u> | <u>9,925,732</u> | <u>124,390,732</u> |
| Totals | <u>\$861,710,000</u> | <u>\$329,525,663</u> | <u>\$1,191,235,663</u> |

On October 20, 2004, the Trust Fund issued \$167,550,000 of Transportation System Senior Revenue Bonds, 2004 Series, of which \$67,425,000 was for an advance refunding of the following Transportation System Senior Revenue Bonds:

**State of Delaware
Department of Transportation**

Notes to Financial Statements (Continued)

Note G - Bonds Outstanding (Continued)

| | |
|--------------|---------------------|
| 1997 Series | \$34,280,000 |
| 2000 Series | 4,115,000 |
| 2001 Series | 4,245,000 |
| 2002B Series | 8,870,000 |
| 2003 Series | <u>15,915,000</u> |
| | <u>\$67,425,000</u> |

The refunding was undertaken to reduce the total future debt service payments. The transaction resulted in an economic gain of \$3,305,552 and a reduction of \$4,462,624 in future debt service payments.

Note H - Debt Defeasance

The Authority has defeased various bond issues by creating separate irrevocable trust funds. New debt had been issued and the proceeds had been used to purchase U.S. Government Securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt is considered defeased and, therefore, not reported as a liability. As of June 30, 2005 and 2004, the amount of defeased debt outstanding amounted to \$151,760,000 and \$135,255,000, respectively.

Note I - Designated Net Assets

For operations, unrestricted net assets designated by management were as follows for the fiscal years ended June 30,:

| | <u>2005</u> | <u>2004</u> |
|---|--------------|--------------|
| DTC Transit Funds | | |
| Designated as working capital for operations are: | \$ 6,064,756 | \$ 4,844,433 |
| Designated as insurance loss reserve are: | 2,716,942 | 1,454,928 |

Unexpended appropriations authorized by the State Budget Bills were carried forward as a designated net asset. For the years ended June 30, 2005 and 2004, the DTC Transit Fund expended authorized appropriations amounting to \$56,297,116 and \$51,967,149, respectively. The remaining totals of budgeted appropriations to be paid in future periods are:

| | |
|-----------|-----------|
| 5,777,107 | 5,999,253 |
|-----------|-----------|

**State of Delaware
Department of Transportation**

Notes to Financial Statements (Continued)

Note I - Designated Net Assets (Continued)

| | <u>2005</u> | <u>2004</u> |
|---|----------------------|----------------------|
| Other Transportation Funds | | |
| Authorized appropriations to fund State highway administration, planning, operating costs, and Expressways Operations/Toll Administration operations for the years ended June 30, 2005 and 2004 were \$-0- and \$121,188,589, respectively. Unexpended appropriations have been designated for approved expenditures and are classified as designated net assets in the amounts of: | \$ <u>7,168,796</u> | \$ <u>12,183,666</u> |
| Total designated net assets | \$ <u>21,727,601</u> | \$ <u>24,482,280</u> |

Note J - DTC Union Contracts

Operators and maintenance personnel of the North District Fixed Route system are represented by the Amalgamated Transit Union AFL-CIO, Local 842. The term of the current Collective Bargaining Agreement covers the period starting March 1, 2002 through November 30, 2007.

Paratransit Operators statewide and South District Fixed Route operators are also represented by the Amalgamated Transit Union AFL-CIO, Local 842, under a separate Collective Bargaining Agreement. The term of the current Collective Bargaining Agreement covers the period July 1, 2003 through June 30, 2008.

Certain administrative, operations, and maintenance personnel are represented by the Office and Professional Employee International Union, Local 32, AFL-CIO. The term of the Collective Bargaining Agreement is from January 1, 2002 through December 31, 2006.

Note K - Retirement Plan

Essentially all full-time Expressways Operations/Toll Administration employees are covered under the State of Delaware Defined Benefit Pension Plan, which is administered by the Office of Pension and Investments. The Plan is contributory, and employees contribute 3% of the portion of their monthly compensation that exceeds \$6,000 per calendar year. Contributions by the Expressways Operations/Toll Administration are based on percentages of total employee compensation as specified by the Office of Pension and Investments.

**State of Delaware
Department of Transportation**

Notes to Financial Statements (Continued)

Note K - Retirement Plan (Continued)

The following trend information for the current and preceding two years was as follows as of June 30,:

| <u>Fiscal Year</u> | <u>Annual Pension Expense</u> | <u>Employer Contribution Rate</u> |
|------------------------|-----------------------------------|---------------------------------------|
| 2005 | \$486,508 | 13.25% |
| 2004 | 392,618 | 11.44% |
| 2003 | 305,316 | 9.47% |

The State of Delaware does not maintain the Pension Plan information by agency, and therefore, the Expressways Operations/Toll Administration's portion of the Plan's net assets available for benefits, percentage of annual pension cost contributed, and the actuarial present value of vested and nonvested accumulated plan benefits is not readily determinable.

Detailed information concerning the State of Delaware "State Employees Pension Plan" is presented in its publicly available annual basic financial statements, which can be obtained by writing the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite 1, 860 Silver Lake Blvd., Dover, DE 19904-2402.

Note L - Defined Benefit Pension Plans

Plan Descriptions

DTC contributes to two single-employer defined benefit pension plans: the Delaware Transit Corporation Pension Plan, with participation limited to full-time, nonunion salaried employees; and the Contributory Pension Plan, for all full-time members of Local #842 Amalgamated Transit Union and Local #32 Office and Professional Employee International Union. Each plan provides retirement, disability, and death benefits to plan members and beneficiaries. Each plan issues a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing or calling DTC at its Dover office.

**State of Delaware
Department of Transportation**

Notes to Financial Statements (Continued)

Note L - Defined Benefit Pension Plans (Continued)

Funding Policy and Annual Pension Cost

The trustees of each plan establish and may amend the contribution requirements of plan members and DTC. The most recent information available for DTC's annual pension cost and related information for each plan is as follows:

| | <u>DTC Pension Plan</u> | <u>Contributory Pension Plan</u> |
|-------------------------------|-----------------------------|--------------------------------------|
| Contribution rates: | | |
| Employer | ** | 5.00% |
| Participants | N/A | 5.00% |
| Annual pension cost | \$612,886 | \$601,299 |
| Contributions made | \$763,558 | \$916,604 |
| Actuarial valuation date | 7/01/04 | 1/01/04 |
| Actuarial cost method | Frozen Initial Liability | N/A |
| Remaining amortization period | 21 | 17 |
| Asset valuation method | Market | Market |
| Actuarial assumptions: | | |
| Investment rate of return | 7.50% | 7.00% |
| Projected salary increases | 4.50% | 4.00% |

(Note: ** = Actuarially Determined and N/A = Not Applicable)

**State of Delaware
Department of Transportation**

Notes to Financial Statements (Continued)

Note L - Defined Benefit Pension Plans (Continued)

Funding Policy and Annual Pension Cost (Continued)

Three-Year Trend Information

| | <u>Plan Year Ended</u> | <u>Contribution Made</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|-------------------|--------------------------------|------------------------------|--|--|---------------------------------------|
| DTC Pension Plan | 06/30/2003 | \$545,328 | \$693,100 | 78.68% | \$ - |
| | 06/30/2004 | 820,350 | 749,796 | 109.41% | - |
| | 06/30/2005 | 763,558 | 612,886 | 124.58% | - |
| Contributory Plan | 12/31/2002 | 346,939 | 563,584 | 61.56% | - |
| | 12/31/2003 | 548,215 | 913,947 | 59.98% | - |
| | 12/31/2004 | 916,604 | 601,299 | 152.44% | - |

Schedules of Funding Progress

DTC Pension Plan

| <u>Actual Valuation Date</u> | <u>Actuarial Value of Assets (a)</u> | <u>Actuarial Accrued Liability (AAL) (b)</u> | <u>Excess of Assets Over AAL (a - b)</u> | <u>Funded Ratio (a/b)</u> | <u>Covered Payroll (c)</u> | <u>Excess as a Percentage of Covered Payroll ((a - b)/c)</u> |
|--------------------------------------|--|--|--|-----------------------------------|------------------------------------|--|
| 07/01/2002 | \$4,355,464 | \$4,727,035 | \$(371,571) | 92.14% | \$7,690,602 | (4.83)% |
| 07/01/2003 | 5,187,005 | 5,536,310 | (349,305) | 93.69% | 8,120,967 | (4.30)% |
| 07/01/2004 | 6,450,349 | 6,874,823 | (424,474) | 93.83% | 7,350,742 | (5.77)% |

Contributory Pension Plan

| <u>Actual Valuation Date</u> | <u>Actuarial Value of Assets (a)</u> | <u>Actuarial Accrued Liability (AAL) (b)</u> | <u>Excess of Assets Over AAL (a - b)</u> | <u>Funded Ratio (a/b)</u> | <u>Covered Payroll (c)</u> | <u>Excess as a Percentage of Covered Payroll ((a - b)/c)</u> |
|--------------------------------------|--|--|--|-----------------------------------|------------------------------------|--|
| 01/01/2003 | \$14,914,835 | \$18,110,449 | \$(3,195,614) | 82.35% | \$16,185,321 | (19.74)% |
| 01/01/2004 | 17,654,095 | 18,866,345 | (1,212,250) | 93.57% | 14,478,473 | (8.37)% |
| 01/01/2005 | 20,266,978 | 20,670,312 | (403,334) | 98.05% | 14,580,133 | (2.77)% |

Note M - Deferred Compensation Plan

The Expressways Operations/Toll Administration offers its permanent employees the State of Delaware's deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all State of Delaware employees, permits them to defer a portion of their salary to future years; participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement,

**State of Delaware
Department of Transportation**

Notes to Financial Statements (Continued)

Note M - Deferred Compensation Plan (Continued)

death, or unforeseeable emergency. The Plan changed in January 2001 to include an employer-matching contribution. The State of Delaware will match the first \$10 contributed by employees who have worked for the State at least six months.

Note N - Post-Retirement Health Care Benefits

In addition to the pension benefits, the State provides post-retirement health care benefits, in accordance with State statutes, to all employees who retire from the State after meeting the eligibility requirements.

Note O - Commitments and Contingencies

Construction Commitments

The Department had contractual commitments of \$240,866,310 and \$197,699,807 for construction of various highway projects at June 20, 2005 and 2004, respectively. Current and future appropriations will fund these commitments as work is performed.

Litigation

DTC is involved in various legal actions arising in the normal course of business. In the opinion of management, such matters will not have a material effect upon the financial position of DTC.

Note P - Claims and Judgments

Electronic Toll Collection

During fiscal year 1998, Expressways Operations/Toll Administration entered into a regional electronic toll collection system consortium. The consortium includes an agreement among member jurisdictions to share in the potential revenues and costs associated with the construction, financing, and operations of an electronic toll collection customer service center (CSC). The CSC collects tolls and violation fees from motorists in each member jurisdiction and remits to each jurisdiction their share of tolls collected based upon actual road usage.

**State of Delaware
Department of Transportation**

Notes to Financial Statements (Continued)

Note P - Claims and Judgments (Continued)

Electronic Toll Collection (Continued)

The CSC will also lease fiber optic transmission lines to the public, which will generate rental income to the CSC. The rental income and violation fees were expected to exceed the costs associated with operating the CSC. In the event that the CSC generates costs in excess of revenues during its ten-year operating term, each member jurisdiction will be obligated to finance their share of this operating deficit under the terms of a True-Up Agreement, which each member jurisdiction has signed.

At June 30, 2005 and 2004, a True-Up study revealed a probable liability relating to the above True-Up Agreement. While the exact amounts of this liability, that is due in March 2008, is not known, a reasonable estimate, based on information currently available, is \$12,000,000 for each year. These amounts have been discounted to their present value based on the average investment rate of the Trust Fund at fiscal year end. The discounted amounts of \$11,325,229 and \$11,083,932 appear as claims and judgments in the accompanying balance sheets at June 30, 2005 and 2004, respectively. Recognition of this expenditure reduces the fund balances at June 30, 2005 and 2004 by \$241,297 and \$170,095, respectively. To accumulate funds for future payment of this liability, the Department is earmarking funds within its operating budget.

On March 25, 2003, the Trust Fund withdrew from the regional consortium that was governing the E-ZPass operation jointly with three agencies from other states. November 30, 2003 is designated as the final transition date. As of this date, the Trust Fund will be operating its E-ZPass system independent of the regional consortium. Per the terms of the withdrawal agreement, the Trust Fund received approximately \$7.6 million during fiscal year 2003 to cover various transition costs. This amount was initially recorded as deferred revenue and vendor retainage payable and will be recorded as income as expenses are incurred. For the years ended June 30, 2005 and 2004, expenses related to E-ZPass were \$2,665,572 and \$4,246,306, respectively. These amounts are included as E-ZPass expense reimbursement and operating expense in the accompanying statements of revenues, expenses, and change in fund net assets.

**State of Delaware
Department of Transportation**

Notes to Financial Statements (Continued)

Note Q - Risk Management

The Department is exposed to various risks of loss related to workers' compensation, healthcare, automobile, and casualty claims. Except as noted below, the Department is a participant in the State of Delaware's Risk Management Program, which covers all claim settlements and judgments out of its General Fund. The Department pays premiums to the General Fund for this coverage.

Workers' Compensation Insurance

DTC maintains coverage for workers' compensation benefits. DTC manages the coverage through both the retention of risk and the purchase of commercial insurance. The payment of workers' compensation claims is processed through a third-party administrator.

For years prior to 2003, DTC established workers' compensation loss contingency reserves based upon insurance carriers' actuarial reviews. Benefit claims in an amount of \$100,000 or less per person, per coverage year are paid from the workers' compensation loss contingency reserve. Once a specific claim exceeds \$100,000 or total claims for a given policy period exceed the maximum loss amount, the insurance policy covers the excess.

For fiscal year 2003, DTC changed its coverage to a first dollar program. Also, all claims are now subject to a \$5,000 deductible for the medical portion of a claim. All other expenses related to a claim are covered by the insurance carrier. DTC established a reserve in 2003 of \$200,000 to cover the deductibles for estimated future medical claims.

Subsequent to fiscal year 2003, DTC changed its coverage and was insured through the State of Delaware. Under the State program, DTC pays a premium calculated as \$7.48 per \$100 of payroll. DTC is not responsible for any costs other than the premium paid, thus no loss contingency reserves are established.

Auto Insurance

DTC maintains auto insurance coverage through both the retention of risk and the purchase of commercial insurance. Auto loss contingency reserves that are based upon actuarial reviews were established by DTC.

**State of Delaware
Department of Transportation**

Notes to Financial Statements (Continued)

Note Q - Risk Management (Continued)

Auto Insurance (Continued)

For years prior to 2003, DTC would establish auto loss contingency reserves based upon insurance carriers' actuarial reviews. Individual claims in an amount of \$100,000 or less per incident, per coverage year were paid from the auto loss contingency reserve. Once a specific claim exceeds \$100,000 or total claims for a given policy period exceed the maximum loss amount established by the insurance carrier, the insurance policy covers the excess.

For 2003 and subsequent years, DTC has established self-insured retention thresholds up to certain dollar amounts and purchased commercial policies for coverage amounts in excess of the self-insured retention thresholds. DTC established initial loss contingency reserves for each of the years based upon actuarial reviews considering the \$300,000 sovereign immunity cap pursuant to Title 2 of the Delaware Code, Sub Section 1329.

| | <u>Initial Loss Contingency Reserve Established</u> | <u>Self-Insured Retention Threshold</u> | <u>Excess Commercial Coverage</u> |
|------|---|---|---|
| 2003 | \$2,561,000 | \$1,300,000 | \$10,000,000 |
| 2004 | 2,666,763 | 1,300,000 | 6,000,000 |
| 2005 | 2,763,367 | 2,300,000 | 5,000,000 |

The components of the remaining insurance loss reserve on DTC's statements of net assets were as follows at June 30,:

| | <u>2005</u> | <u>2004</u> |
|--|-------------|-------------|
| Workers' compensation reserve remaining for fiscal year 2003 | \$ 153,172 | \$ 153,173 |
| Workers' compensation reserve remaining for fiscal year 2002 | 206,521 | 381,708 |
| Workers' compensation reserve remaining for fiscal year 2001 | 12,895 | 367,346 |
| Workers' compensation reserve remaining for fiscal year 2000 | - | 10,022 |
| Workers' compensation reserve remaining for fiscal year 1999 | - | 101,809 |

**State of Delaware
Department of Transportation**

Notes to Financial Statements (Continued)

Note Q - Risk Management (Continued)

Auto Insurance (Continued)

| | <u>2005</u> | <u>2004</u> |
|---|--------------------|--------------------|
| Auto reserve remaining for fiscal year 2005 | \$2,036,636 | \$ - |
| Auto reserve remaining for fiscal year 2004 | 864,769 | 1,399,775 |
| Auto reserve remaining for fiscal year 2003 | 227,981 | 578,495 |
| Auto reserve remaining for fiscal year 2002 | - | 312,680 |
| Auto reserve remaining for fiscal year 2001 | - | 425,813 |
| | <u>\$3,501,974</u> | <u>\$3,730,821</u> |

Changes in the claim liabilities during fiscal years 2005 and 2004 were as follows:

| <u>Fiscal Year</u> | <u>Beginning Balance July 1</u> | <u>Current Year Estimated Claims and Changes in Estimates</u> | <u>Actual Claim Payments</u> | <u>Ending Balance June 30</u> |
|------------------------|---|---|--------------------------------------|---------------------------------------|
| 2005 | \$3,730,821 | \$2,482,549 | \$(2,711,396) | \$3,501,974 |
| 2004 | \$5,684,242 | \$1,471,677 | \$(3,425,098) | \$3,730,821 |

Note R - Operating Leases

The Department has several noncancellable operating leases, primarily for operation and maintenance facilities, which expire at various times through June 29, 2020. Those leases require the Department to pay for maintenance and liability insurance costs. Rental expenses were \$662,790 and \$395,652 for the years ended June 30, 2005 and 2004, respectively.

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2005 are as follows:

| | |
|-------------|--------------------|
| 2006 | \$ 844,847 |
| 2007 | 122,349 |
| 2008 | 107,386 |
| 2009 | 22,380 |
| 2010 | 6,945 |
| 2011 - 2015 | 9,000 |
| 2016 - 2020 | 9,000 |
| | <u>\$1,121,907</u> |

**State of Delaware
Department of Transportation**

Notes to Financial Statements (Continued)

Note R - Operating Leases (Continued)

DTC has an operating lease agreement for transit vehicle tires, which will expire on April 30, 2006. The lease agreement requires DTC to make monthly payments based on miles driven multiplied by a mileage rate as set forth in the agreement. The mileage rate is based on contract year and estimated annual vehicle miles. For the years ended June 30, 2005 and 2004, DTC incurred expenses related to this lease of \$126,976 and \$124,477, respectively.

Note S - Contributions from the State General Fund

The State of Delaware's General Assembly and the State of Delaware's Division of Revenue transferred the following amounts from the State's General Fund to the Trust Fund at June 30,:

| | <u>2005</u> | <u>2004</u> |
|--|---------------------|---------------------|
| Amounts transferred to the Revenue Fund: | | |
| Division of Revenue, Motor Vehicle Dealer/ Lessor License and Document Fees | \$ 2,548,989 | \$ 2,504,023 |
| Amounts transferred to the Department: | | |
| Supplemental appropriation from fiscal year Bond Bill | 18,927,041 | 13,262,171 |
| Division of Motor Vehicles | 2,766,500 | 5,065,567 |
| Port of Wilmington improvements and expansion | 15,000,000 | 5,015,000 |
| Green infrastructure program | 22,100,000 | - |
| Glenville disaster recovery | 15,000,000 | 15,000,000 |
| Amounts transferred from the Department to DNREC | <u>-</u> | <u>(3,086,451)</u> |
| | <u>\$76,342,530</u> | <u>\$37,760,310</u> |

Note T - Advertising

Advertising costs are charged to operations when incurred. Total advertising costs of \$645,858 and \$704,982 were incurred for the years ended June 30, 2005 and 2004, respectively.

**State of Delaware
Department of Transportation**

Notes to Financial Statements (Continued)

Note U - Prior Period Adjustment

The accompanying financial statements as of June 30, 2004 have been restated to correct errors in the reporting of year-end cash advances made to the State of Delaware, Department of the Treasurer. Each year the advance is made to cover the Department's expenses until year-end close out is completed. The adjustment increased cash and accounts payable by \$6,786,181. The restatement has no effect on net assets.

Note V - Subsequent Event

Effective July 1, 2005, the Diamond State Port loan (See Note D) was restructured. Unpaid interest through January 1, 2006, in the amount of \$1,348,641 will be capitalized into the loan balance. The funds were loaned at an interest rate of 4.6%. The loan is to be repaid in 40 semi-annual payments of \$1,168,031, commencing on July 1, 2006, with the final payment to be made January 1, 2026.

Note W - Changes in Accounting Principles

The Department adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures* in fiscal year 2005. GASB Statement No. 40 establishes and modifies certain financial statement note disclosure requirements to make the financial statements more useful. GASB Statement No. 40 had an impact on the presentation of the notes to the financial statements, but no impact on net assets.

Required Supplementary Information

**State of Delaware
Department of Transportation**

**Supplementary Information for Governments
That Use the Modified Approach for
Infrastructure Assets**

| | | <u>Structural Rating Numbers & Percentages for Bridges</u> | | | | | |
|--------|-----------------------------|--|--------------|---------------|--------------|---------------|--------------|
| | | <u>2004</u> | | <u>2003</u> | | <u>2002</u> | |
| | <u>BCR Condition Rating</u> | <u>Number</u> | <u>%</u> | <u>Number</u> | <u>%</u> | <u>Number</u> | <u>%</u> |
| Good | 6 - 9 | 1,029 | 75.1 | 1,012 | 74.5 | 1,011 | 72.9 |
| Fair | 5 | 256 | 18.6 | 259 | 19.0 | 273 | 19.7 |
| Poor | 1 - 4 | 86 | 6.3 | 89 | 6.5 | 102 | 7.4 |
| Totals | | <u>1,371</u> | <u>100.0</u> | <u>1,360</u> | <u>100.0</u> | <u>1,386</u> | <u>100.0</u> |

| | | <u>Deck Rating Numbers & Percentages for Bridges</u> | | | | | |
|--------|-----------------------------|--|--------------|--------------------|--------------|--------------------|--------------|
| | | <u>2004</u> | | <u>2003</u> | | <u>2002</u> | |
| | <u>OPC Condition Rating</u> | <u>Square Feet</u> | <u>%</u> | <u>Square Feet</u> | <u>%</u> | <u>Square Feet</u> | <u>%</u> |
| Good | 6 - 9 | 6,731,463 | 94.0 | 6,932,464 | 97.0 | 6,522,812 | 75.4 |
| Fair | 5 | 399,554 | 5.6 | 172,061 | 2.4 | 1,650,368 | 19.2 |
| Poor | 1 - 4 | 31,983 | 0.4 | 40,677 | 0.6 | 480,228 | 5.4 |
| Totals | | <u>7,163,000</u> | <u>100.0</u> | <u>7,145,202</u> | <u>100.0</u> | <u>8,653,408</u> | <u>100.0</u> |

| | | <u>Centerline Mile Numbers & Percentages for Roadways</u> | | | | | |
|--------|-----------------------------|---|--------------|-------------------------|--------------|-------------------------|--------------|
| | | <u>2004</u> | | <u>2003</u> | | <u>2002</u> | |
| | <u>OPC Condition Rating</u> | <u>Center-line Mile</u> | <u>%</u> | <u>Center-line Mile</u> | <u>%</u> | <u>Center-line Mile</u> | <u>%</u> |
| Good | 3.0 - 5.0 | 3,296 | 73.8 | 3,459 | 77.5 | 3,196 | 76.6 |
| Fair | 2.5 - 3.0 | 775 | 17.4 | 641 | 14.4 | 568 | 13.6 |
| Poor | Below 2.5 | 393 | 8.8 | 364 | 8.1 | 411 | 9.8 |
| Totals | | <u>4,464</u> | <u>100.0</u> | <u>4,464</u> | <u>100.0</u> | <u>4,175</u> | <u>100.0</u> |

Comparison of Estimated-to-Actual Maintenance / Preservation (in Thousands)

| | <u>2004</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|-----------|------------------|------------------|------------------|------------------|------------------|
| Estimated | <u>\$138,517</u> | <u>\$122,662</u> | <u>\$129,180</u> | <u>\$ 97,341</u> | <u>\$ 51,275</u> |
| Actual | <u>\$311,397</u> | <u>\$133,765</u> | <u>\$146,352</u> | <u>\$126,540</u> | <u>\$132,454</u> |

The condition of road pavement is measured using the Overall Pavement Condition (OPC) system, which is based on the extent and severity of various pavement distresses that are visually observed. The OPC system uses a measurement scale that is based on a condition index ranging from 0 for poor pavement to 5 for pavement in excellent condition.

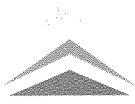
**State of Delaware
Department of Transportation**

**Supplementary Information for Governments
That Use the Modified Approach for
Infrastructure Assets (Continued)**

The condition of bridges is measured using the "Bridge Condition Rating" (BCR), which is based on the FHWA Coding Guide, "Recording and Coding Guide for the Structure Inventory and Appraisal of the Nation's Bridges." The BCR uses a measurement scale that is based on a condition index ranging from 0 to 9, 0 to 4 for substandard bridges and 9 for bridges in perfect condition. For these reporting purposes, substandard bridges were classified as those with a rating of 4 or less. The good or better condition bridges were taken as those with ratings of 6 to 9. A 5 rating is considered fair. The information is taken from past "Bridge Inventory Status" reports.

It is the State's policy to maintain at least 75% of its highways and bridge systems at a good or better condition level. No more than 10% of bridges and 15% of roads should be in substandard condition. Condition assessments are determined every year for roads and every two years for bridges.

Additional Information



Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

State of Delaware
Department of Transportation
Dover, Delaware

We have audited the financial statements of the State of Delaware, Department of Transportation as of and for the years ended June 30, 2005 and 2004, and have issued our report thereon dated August 18, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the State of Delaware, Department of Transportation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the State of Delaware, Department of Transportation in a separate letter dated August 18, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Delaware, Department of Transportation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the management of the State of Delaware, Department of Transportation, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, Department of Finance, and Office of Auditor of Accounts, and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Santoro & Group", with a long horizontal flourish extending to the right.

August 18, 2005
Newark, Delaware

State of Delaware
Department of Transportation
Schedule of Revenue Bond Coverage

June 30, 2005

Oversight responsibility for the issuance of debt by the State and its authorities is centralized under the Secretary of Finance. The following table sets forth certain indebtedness of the Department. Further information for the Department may be found in the notes to financial statements, changes in long-term liabilities and bonds outstanding.

(in thousands)

| <u>Fiscal Year</u> | <u>Gross Revenue</u> | <u>Direct Operating Expenses</u> | <u>Net Available for Debt Service</u> | <u>Debt Service Requirements</u> | <u>Coverage</u> |
|------------------------|--------------------------|--|---|--------------------------------------|-----------------|
| 1996 | \$ 229,771 | \$ 95,859 | \$ 133,912 | \$ 67,704 | 1.98 |
| 1997 | 233,913 | 105,371 | 128,542 | 67,064 | 1.92 |
| 1998 | 254,887 | 119,428 | 135,459 | 61,761 | 2.19 |
| 1999 | 272,398 | 119,816 | 152,582 | 66,018 | 2.31 |
| 2000 | 284,167 | 118,739 | 165,428 | 66,139 | 2.50 |
| 2001 | 299,962 | 147,065 | 152,897 | 72,852 | 2.10 |
| 2002 | 297,894 | 140,940 | 156,954 | 74,834 | 2.10 |
| 2003 | 298,536 | 156,394 | 142,142 | 86,447 | 1.64 |
| 2004 | 314,205 | 177,545 | 136,660 | 85,816 | 1.59 |
| 2005 | 324,962 | 192,738 | 132,224 | 93,290 | 1.42 |